

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6675

BILL NUMBER: HB 1369

NOTE PREPARED: Jan 17, 2012

BILL AMENDED:

SUBJECT: Tax Credit for Research Conducted by University.

FIRST AUTHOR: Rep. Heuer

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill expands the Sales Tax exemption for research and development equipment to include any tangible personal property used for research and development. It also increases the percentage of qualified research conducted in Indiana through a public or private college or university that is eligible for a Research Expense Credit.

Effective Date: January 1, 2012 (retroactive); July 1, 2012.

Explanation of State Expenditures: *Department of State Revenue (DOR):* This bill will increase the administrative costs of the DOR. The DOR will have to amend the Sales Tax forms to expand the Sales Tax exemption proposed in this bill. The DOR also will have to revise income tax forms and computer programs to reflect the change to the research expense credit. The DOR's existing level of resources should be sufficient.

Explanation of State Revenues: *Impact on Sales Tax Revenue:* This bill would decrease Sales Tax revenue by an indeterminable amount. The bill provides a Sales Tax exemption for *any* tangible personal property that is acquired by the purchaser for the purpose of research and development activities. IC 6-2.5-1-27 defines tangible personal property as any "personal property that: (1) can be seen, weighed, measured, felt, or touched; or (2) is in any other manner perceptible to the senses. The term also includes electricity, water, gas, steam, and prewritten computer software."

PL 193-2005 established the Sales Tax exemption for research and development equipment. Under current statute tangible personal property that consists of the following is exempt from Sales Tax:

- Laboratory equipment;

- Computers;
- Computer software;
- Telecommunications equipment; or
- Testing equipment

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Impact on Income Tax Revenue: The bill would increase the percentage of certain qualified research expenses relating to contract research with Indiana colleges and universities that can be claimed under the research expense credit. The change will result in additional revenue loss from the research expense credit depending on the level of contract research by Indiana taxpayers with Indiana colleges and universities. State or federal tax data is unavailable that indicates the amount or percentage of research expenses qualified for the research expense credit that is incurred for contract research by colleges and universities, including colleges and universities in Indiana. Consequently, the potential revenue loss is indeterminable at this time.

Under current statute, the credit may be claimed against the individual adjusted gross income (AGI) tax or corporate AGI tax for expenses relating to increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurs over their base-year research expenses. The base-year research expenses are measured for taxable years beginning after December 31, 1989, and are equal to the base amount for purposes of the federal research expense credit as defined in the Internal Revenue Code. 100% of expenses incurred by the taxpayer for in-house qualified research is covered by the credit, but only 65% of expenses incurred by the taxpayer for qualified research that is done by a person other than an employee of the taxpayer. The bill increases from 65% to 100%, the percentage of contract research expenses incurred by the taxpayer that are covered by the credit if the expenses are incurred for “Indiana college research”. Indiana college research is defined by the bill as research qualified for the research expense credit that is conducted in Indiana after December 31, 2011, by a state educational institution or an approved postsecondary educational institution.

Background: Based on tax year 2009 returns, 818 individual income tax payers claimed \$5.5 M in research expense credits, and 83 corporate taxpayers claimed \$15.6 M in credits.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would decrease to the extent that a local unit receives funds from the Commuter Rail Service Fund, or the Industrial Rail Service Fund.

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: Tom Conley, 317-232-2107

Fiscal Analyst: Diana Agidi, 317-232-9867; Jim Landers, 317-232-9869.